

**METROPOLITAN WATER DISTRICT OF PROVO**

**FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**METROPOLITAN WATER DISTRICT OF PROVO**  
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# GILBERT & STEWART

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## INDEPENDENT AUDITOR'S REPORT

Chairman and Executive Council  
Metropolitan Water District of Provo  
Provo, UT 84601

July 26, 2006

We have audited the accompanying basic financial statements of the business-type activities, which collectively comprise the financial statements of Metropolitan Water District of Provo as of June 30, 2006, and for the year then ended as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

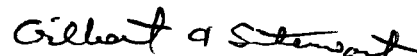
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Metropolitan Water District of Provo as of June 30, 2006 and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2006, on our consideration of Metropolitan Water District of Provo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

  
GILBERT & STEWART  
Certified Public Accountants

## **Management's Discussion and Analysis**

Within this section of the Metropolitan Water District of Provo (District) annual financial statement, the District's management provides a narrative discussion and analysis of the District's financial activities for the fiscal year ending June 30, 2006. It also encourages the reader to consider the statements herein in addition to the comments made here.

### **Overview of the Financial Statements**

The financial statements herein are three in number.

The first is a Statement of Net Assets which presents information on all of the District's assets and liabilities, with the difference reported as "Total Net Assets." The total net assets when viewed on time continuum will track the District's financial position (i.e. increasing or declining in value).

The second statement is Revenues, Expenses and Changes in Net Assets. This statement presents information regarding the change in the District's net assets during the year. The District uses the accrual basis of accounting in which revenues and expenditures are recognized when earned and expended. Thus, revenues and expenditures are reported in these statements for items that will affect future cash flows.

The third statement is Cash Flows. This statement presents the activities of the District on a cash-received and cash-paid basis. It shows how cash was spent and reconciles the change in the District's cash accounts during the year. The information presented therein requires no explanation and thus is omitted from the analysis.

### **Financial Analysis**

The District has not exercised the taxing authority granted by the Utah Code for an extended period of time. It is currently operating with revenues gained from water sales and interest from investments. Therefore the District conducts its financial activities from a single enterprise fund.

### **Revenues**

The District has one basic source of operating revenue, (water sales to Provo City) and one source of non-operating (interest from the investment of net assets). Both of these revenue sources have been affected negatively for the past two to five years, but have currently shown a trend toward normal.

The current contract negotiated between the District and Provo City in which the price of water sold to the City is fixed at \$25.00 per acre-feet and requires the City to only pay for the water made available to it by the District. In the past several years, as a result of the drought, the Provo River has been at 75% and 50% which significantly reduced anticipated revenue. This year, 2005/2006, the river was at 100% which brought revenue from Provo City to the projected level.

The District invests its net assets in the Public Treasurers Investment Fund (PTIF). As a result of the depressed economy, the interest from these invested funds has been low. The interest rate has dropped from over 6 % in 2000 to under 2% at the beginning of the current year and a little over 3% currently. This reduction has significantly impacted the District's revenue. By the end of this year 2005/2006, interest has started back up. The interest return for June, 2004 was \$3,283.35 while the interest return for June, 2006 was \$10,515.71. This has returned us to near an expected level.

The following table summarizes information presented in the financial statements over the last two years.

#### Statement of Net Assets

	ASSETS	
	<u>2005-2006</u>	<u>2004-2005</u>
Current Assets		
Cash and cash equivalents	\$2,547,428	\$2,489,581
Non-current Assets		
Capital Assets		
Net of Accumulated Depreciation	<u>2,058,254</u>	<u>2,134,395</u>
Total Assets	<u>\$4,605,682</u>	<u>\$4,623,976</u>
	LIABILITIES AND NET ASSETS	
Liabilities		
Current Liabilities		
Accounts Payable	\$ 3,893	\$ 3,826
Current portion – Long-term debt	24,300	24,300
Deferred Revenue	<u>50,278</u>	<u>25,278</u>
Total Current Liabilities	78,471	53,404
Long Term Liabilities		
Contract Payable	<u>476,344</u>	<u>503,479</u>
Total Liabilities	<u>554,815</u>	<u>556,883</u>
Net Assets		
Invested in Capital Assets,		
Net of Related Debt	1,557,610	1,606,616
Unrestricted	<u>2,493,257</u>	<u>2,460,477</u>
Total Net Assets	<u>\$4,050,867</u>	<u>\$4,067,093</u>

## Long Term Liabilities

The District has only two major long-term liabilities:

- 1) The District was organized in 1935 to represent Provo City's interests in the Deer Creek Dam and to assume the construction liability. The District signed a construction contract with Provo River Water Users Association. The payment on this contract has been completed. However, a supplemental contract was also signed to build the Deer Creek power plant. The District still has an obligation (noted above) on this contract and makes an annual payment on this obligation. However, the District's actual payment is reduced somewhat by earnings from the sale of the power.
- 2) The Metropolitan Water District (MWD) in 1994 signed an agreement with the Central Utah Water Conservancy District (CUWCD) for an annual allotment of 1,800 acre-feet of water in Jordanelle Dam. The agreement includes an annual payment of an estimated \$369,500 annually for 50 years. CUWCD however agreed to make the above payment during the years that MWD did not call for the water. To date the MWD has not used any of the water in this agreement and thus has made no payments to CUWCD.

Currently the District has no other long-term liabilities and foresees no future revenue requirements for which the District would need to issue bonds or impose its taxing authority.

### **Statement of Revenues Expenses and Changes in Net Assets**

	<u>2005-2006</u>	<u>2004-2005</u>
Operating Revenue		
Water Sales	<u>\$ 188,623</u>	<u>\$ 146,400</u>
Operating Expenses		
Water Assessments	164,868	153,520
Wages and Taxes	31,714	31,714
Professional Fees	2,900	2,650
Engineering Fees	33,235	-
Insurance, Office and Other	8,246	6,407
Depreciation	2,063	2,136
Rent	<u>1,800</u>	<u>1,800</u>
Total Operating Expenses	<u>244,826</u>	<u>198,227</u>
Operating Loss	( <u>56,203</u> )	( <u>51,827</u> )
Non-Operating Revenue (Expenses)		
Loss on Water Right	( <u>17,325</u> )	-
Interest	107,055	61,439
Reimbursement of Expenses	( <u>7,000</u> )	-
Total Non-Operating Revenue (Expenses)	<u>96,730</u>	<u>61,439</u>

Net Income (Loss)	40,527	9,612
Net Assets – Beginning Of Year	4,067,093	4,057,481
Prior Period Adjustment	( 56,753)	-
Net Assets – End of Year	<u>\$4,050,867</u>	<u>\$4,067,093</u>

With the shortfall in revenues noted above, a decision regarding expenditures was required. The Board of Directors, through budget approvals, opted to offset the shortfall from the District's net assets. The level of expenditures thus, remained nearly constant. With the return to 100% in the Provo River, a normal expenditure level was reflected in the 2005/2006 and 2006/2007 budgets.

As a result of the decision to continue to participate in Provo City capital projects, the District's net assets will continue to diminish.

#### Financial Highlights

The District had only one capital project in 2005/2006. It was the new Canyon Road Well located behind fire station #2 at 2737 Canyon Road in Provo. Provo City has obtained 11 drilling permits from the State Engineer. The District agreed to help Provo City drill and equip one of those permits. The Canyon Road well was started in October, 2005, and at this writing is not yet completed.

The District and the City have corresponding boundaries and thus serve the same population. The City operates the distribution system for the above population and the District board of directors feel that the District should continue to participate with the City in the development of new water sources instead of independent development by the District.

## **BASIC FINANCIAL STATEMENTS**



# METROPOLITAN WATER DISTRICT OF PROVO

## STATEMENT OF NET ASSETS

JUNE 30, 2006

### ASSETS

#### Current Assets

Cash and Cash Equivalents	\$ 2,547,428
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#### Non-Current Assets

##### Capital Assets

Furniture and Equipment	\$ 9,128	
Building	6,285	
Wells	38,115	
Water Stock Rights	2,029,555	
Less: Accumulated Depreciation	(24,829)	
Total Non-Current Assets		<u>2,058,254</u>

Total Assets	<u>\$ 4,605,682</u>
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### LIABILITIES

#### Current Liabilities

Accounts Payable	\$ 3,893	
Current Portion - Long-Term Debt	24,300	
Deferred Revenue	50,278	
Total Current Liabilities		<u>\$ 78,471</u>

#### Non-Current Liabilities

Contract Payable Less Current Portion	<u>476,344</u>
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Total Liabilities	<u>\$ 554,815</u>
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### NET ASSETS

Invested in Capital Assets, Net of Related Debt	1,557,610	
Unrestricted	<u>2,493,257</u>	
Total Net Assets		<u><u>\$ 4,050,867</u></u>

See accompanying notes.

**METROPOLITAN WATER DISTRICT OF PROVO**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2006**

<b>Operating Revenue</b>		
Water Sales and Rental		\$188,623
<b>Operating Expenses</b>		
Water Assessments	\$ 164,868	
Wages and Taxes	31,714	
Professional Fees	2,900	
Engineering Fees	33,235	
Insurance, Office and Other	8,246	
Depreciation	2,063	
Rent	1,800	
Total Operating Expenses		<u>244,826</u>
Operating Loss		(56,203)
<b>Non-Operating Revenue (Expenses)</b>		
Loss on Water Rights	(17,325)	
Interest	107,055	
Reimbursement of Expenses	7,000	
Total Non-operating Revenue (Expenses)		<u>96,730</u>
<b>Net Income</b>		40,527
<b>Net Assets - Beginning of Year</b>		4,067,093
<b>Prior Period Adjustment</b>		<u>(56,753)</u>
<b>Net Assets - End of Year</b>		<u><u>\$4,050,867</u></u>

*See accompanying notes.*

# METROPOLITAN WATER DISTRICT OF PROVO

## STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006

### Cash Flows from Operating Activities:

Water Sales and Rental	\$ 201,113	
Payments to Employees	(29,460)	
Payments for Payroll Taxes	(2,279)	
Payments to Vendors	(210,958)	
Total		\$ (41,584)

### Cash Flows from Non-Capital and Related Financing Activities:

Reimbursement of Expenses	7,000
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### Cash Flows from Capital and Related Financing Activities:

Payment on Debt	(14,624)
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### Cash Flows from Investing Activities

Interest Income	107,055
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Net Increase in Cash and Cash Equivalents	57,847
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Cash and Cash Equivalents - Beginning	2,489,581
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Cash and Cash Equivalents - Ending	<u>\$2,547,428</u>
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### Reconciliation of Operating Income to Cash Flows from Operating Activities:

#### Cash Flows from Operating Activities

Net Operating Loss	\$ (56,203)
Adjustments to Reconcile Net Operating Loss to Net Cash Provided (Used):	
Depreciation	2,063
Noncash Payments Applied to Debt	(12,511)
Increase in Deferred Revenue	25,000
Increase in Payables	67
Net Cash Used in Operating Activities	<u>\$ (41,584)</u>

### Supplementary Information:

There are no cash payments for interest or income taxes during the year.

See accompanying notes.

**METROPOLITAN WATER DISTRICT OF PROVO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Metropolitan Water District of Provo was formed as a special district in 1936 to locate, develop and protect water resources. All of the services provided by the District, the activities and funds that are financially accountable to the District as defined by GASB Statement 14 and 39, are included in the financial statements.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles as applied to government units. The more significant accounting policies are as follows:

**Fund Accounting**

The District uses only one fund to account for its operations. The proprietary fund type (enterprise fund) is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Basis of Accounting**

Metropolitan Water District of Provo maintains its books and financial statements in conformity with U.S. generally accepted accounting principles as applicable to governmental units. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District is a proprietary fund and uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized where earned and expenditures are recognized when incurred.

The District distinguishes operating revenues and expenses from non-operating items by whether or not transactions are in connection with the District's purpose of locating, developing, and protecting water resources.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**METROPOLITAN WATER DISTRICT OF PROVO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**NOTE 1 – SUMMARY (Continued)**

**Use of Estimates**

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues, and expenses. Actual results may vary from these estimates.

**Investment in Stock, Water Stock, and Well**

The District owns 8,000 shares (8%) of Provo River Water Users Association stock. The District also owns various other water shares and a well. The District records this investment, the water stock and well at cost.

**Cash Equivalents**

Cash and cash equivalents are defined as those monies available for use on demand or within 3 months.

**Capital Assets**

Purchased property and equipment are recorded at cost. Assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Equipment	3-5 years
Wells	20 years

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Deposits and Investments for local government are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, “the Act”) and by rules of the Utah Money Management Council (“the Council”). Following are discussions of the local government’s exposure to various risks related to its cash management activities.

**A. Custodial Credit Risk**

*Deposits.* Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government’s deposits may not be recorded. The local government’s policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the local government to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2006, none of the local government’s bank balances of \$25,143 were uninsured and uncollateralized.

**METROPOLITAN WATER DISTRICT OF PROVO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**

**B. Credit Risk**

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The local government's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The local government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the year ended June 30, 2006, the local governments had investments of \$2,522,285 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

**C. Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

**NOTE 3 – CAPITAL ASSETS**

	<u>Balance</u> <u>6/30/2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/2006</u>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Water stock	\$ 2,046,880		\$ 17,325	\$ 2,046,880
Construction in progress	56,753	-	56,753	-
Total capital assets not being depreciated	<u>2,103,633</u>	<u>-</u>	<u>74,078</u>	<u>2,029,555</u>
Capital assets being depreciated				
Buildings	6,285	-	-	6,285
Wells	38,115	-	-	38,115
Equipment	9,128	-	-	9,128
Total capital assets being depreciated	<u>53,528</u>	<u>-</u>	<u>-</u>	<u>53,528</u>

**METROPOLITAN WATER DISTRICT OF PROVO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**NOTE 3 – CAPITAL ASSETS (Continued)**

	Balance 6/30/2005	Increases	Decreases	Balance 6/30/2006
<b>Business-type activities (Continued)</b>				
Less accumulated depreciation for:				
Buildings	1,727	157	-	1,884
Wells	11,911	1,906	-	13,817
Equipment	9,128	-	-	9,128
Total accumulated depreciation	<u>22,766</u>	<u>2,063</u>	<u>-</u>	<u>24,829</u>
 Total capital assets being depreciated - net	<u>30,762</u>	<u>(2,063)</u>	<u>-</u>	<u>28,699</u>
Business-type activities capital assets - net	<u>\$ 2,134,395</u>	<u>\$ (2,063)</u>	<u>\$ 74,078</u>	<u>\$ 2,058,254</u>

**NOTE 4 - RETIREMENT PLAN**

The District has no employees covered by a retirement plan.

**NOTE 5 - WATER RIGHTS AND WELL**

The District owns a well and shares in the following water companies:

	Cost
Provo River Water Users Association	\$1,913,297
Other Water Rights	10,048
Thorn Well and Related Water Rights	106,210
Total	<u>\$2,029,555</u>

**NOTE 6 - LONG-TERM DEBT**

The following is a summary of changes in long-term debt:

	Balance 7/1/05	Deductions	Balance 6/30/06	Due within One Year
Due to Provo River Water Users Association	<u>\$527,779</u>	<u>(\$27,135)</u>	<u>\$500,644</u>	<u>\$24,300</u>

**METROPOLITAN WATER DISTRICT OF PROVO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**NOTE 6 - LONG-TERM DEBT (Continued)**

This contract is payable to Provo River Water Users Association for the District's share of the Deer Creek Dam construction project and is interest free and due in yearly installments until the year 2028. The payment schedule is as follows:

2006	\$ 24,300
2007	22,800
2008	22,800
2009	22,800
2010	22,800
2011-2015	114,000
2016-2020	114,000
2021-2025	114,000
2026-2028	<u>43,144</u>
Total	<u>\$500,644</u>

**NOTE 8 - DEFERRED REVENUE, CONCENTRATION OF CREDIT RISK AND ECONOMIC DEPENDENCY**

The deferred revenue is from a local government. Most of the District's revenues are derived from this entity. The deferred revenue is:

Provo City	<u>\$50,278</u>
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**NOTE 9 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the District to retain the risk of any loss. The District, however, has purchased a workers' compensation policy. No claims have been reported as of year end. No claims have been paid in the current or prior three years.



**METROPOLITAN WATER DISTRICT OF PROVO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**NOTE 10 - COMMITMENTS**

In 1994 Metropolitan Water District of Provo signed an agreement with Central Utah Water Conservancy District for a perpetual allotment of 1800 acre-feet of water. Payments are estimated at \$369,500 per year for 50 years. The payments are for the annual use of the water and are not considered payments on a long-term debt. The District has the discretion each year to take the water or make its allotment available to Central Utah Water Conservancy District. If the water is made available to Central Utah Water Conservancy District, no payment is required in that year. As of now, no water has been used and no payments have been made under this contract.

The District has an annual agreement to rent office space for \$150 per month from Provo City. For the current year, rent expense was \$1,800.

**NOTE 11 - LOSS ON WATER RIGHT**

In 1994, the District purchased a water right from an individual. During the current year, it was determined that there was no original water right to purchase. It had been sold to another party. The Board feels it is not worth the attorney fees to pursue the recovery of the water right. The cost of \$17,325 is written off at June 30, 2006.

**NOTE 12 - PRIOR PERIOD ADJUSTMENT**

In 2004/2005, the District incurred development costs of \$56,753 on a new well and recorded this as construction in progress. During the current year, the District determined that these costs are not capital costs and should have been expensed in the prior year. The District will not own the well, but is merely assisting Provo City with costs of construction.

# GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS  
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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Metropolitan Water District of Provo  
Provo, UT 84601

July 26, 2006

We have audited the financial statements of the business-type activities of Metropolitan Water District of Provo as of and for the year ended June 30, 2006, which collectively comprise Metropolitan Water District of Provo's basic financial statements and have issued our report thereon dated July 26, 2006. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

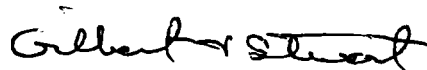
### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metropolitan Water District of Provo's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metropolitan Water District of Provo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART  
*Certified Public Accountants*

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**INDEPENDENT AUDITOR'S REPORT  
ON LEGAL COMPLIANCE WITH APPLICABLE  
UTAH STATE LAWS AND REGULATIONS**

July 26, 2006

Metropolitan Water District of Provo  
Provo, UT 84601

We have audited the accompanying financial statements of the business-type activities of Metropolitan Water District of Provo for the year ended June 30, 2006, and have issued our report thereon dated July 26, 2006. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt  
Cash Management  
Purchasing Requirements

Budgetary Compliance  
Special Districts  
Other General Issues

The District did not receive any major or nonmajor State grants during the year ended June 30, 2006.

The management of the Metropolitan Water District of Provo is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Metropolitan Water District of Provo complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2006.

This report is intended solely for the information and use of management and Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART  
*Certified Public Accountants*

**METROPOLITAN WATER DISTRICT OF PROVO**  
**MANAGEMENT LETTER**

**GILBERT & STEWART**  
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July 26, 2006

Metropolitan Water District of Provo  
Provo, UT

We have completed our audit of the general purpose financial statements of Metropolitan Water District of Provo for the year ended June 30, 2006 and have issued our report thereon dated July 26, 2006. Professional Standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 12, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Metropolitan Water District of Provo. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provision.

Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Metropolitan Water District of Provo are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year that were both significant and unusual, and of

which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

#### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process. We did propose and make certain reclassifying, and closing entries to properly reflect required recognition of revenues, expenses, and financial position in accordance with U.S. generally accepted accounting principles.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We wish to express our appreciation to the District personnel for the friendly and enthusiastic help extended to us during the course of examination.

This information is intended solely for the use of the management of Metropolitan Water District and should not be used for any other purpose.

Sincerely,

GILBERT & STEWART  
*Certified Public Accountants*